

FISCAL MEMORANDUM

SB 93 – HB 114

May 3, 2007

SUMMARY OF AMENDMENT (007755): Deletes the language of the original bill. Enacts the “Food Tax – Cigarette Tax Swap and Educational Improvements Act of 2007.” Reduces the state sales tax rate on food and food ingredients from 6.0% to 4.0%. Increases the excise tax on cigarettes from 20 cents to 87 cents per pack. Increases the excise tax on cigarettes by 1 cent per pack each year beginning in FY08-09 and continuing through FY17-18. Increases tax on all other tobacco products from 6.6% to 19.8% of the wholesale price.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenues – Net Impact - \$86,371,000 / Education Fund

Decrease State Revenues – Net Impact -

\$67,614,000 / General Fund

\$11,223,000 / Earmarked to Local Governments

\$856,000 / Department of Revenue

\$2,140,000 / Sinking Fund

Increase State Expenditures – \$11,223,000 / General Fund

\$220,000 / Department of Revenue - Recurring

\$200,000 / Department of Revenue - One-Time

Increase Local Govt. Revenues – Net Impact - \$4,199,000 Recurring

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Increase State Revenues – Net Impact - \$201,537,000

Increase State Expenditures –

\$7,482,000 / (Holding local govt. harmless) - Recurring

\$220,000 / Department of Revenue – Recurring

\$200,000 / Department of Revenue – One-Time

Increase Local Govt. Revenue - \$4,367,000

Other Fiscal Impact – The net estimated increase of state revenues equal to \$201,537,000 consists of an increase to the General Fund of \$309,172,000, a decrease to the Education Fund of \$98,212,000, a decrease of revenues earmarked to local governments of \$7,482,000, a decrease to DOR of \$556,000, and a decrease to the Sinking Fund of \$1,385,000.

<BillComp>

Food tax assumptions applied to amendment:

- The methodologies used to determine the impacts of reducing the sales tax on food and increasing the excise tax on cigarettes for the original bill have been used to determine the fiscal estimate for the bill as amended (with the exception of different elasticity rates).
- Taxable sales for food and food ingredients have been estimated to be \$8,146,126,000 for FY07-08.
- Reducing the sales tax rate on food by 2.0% is estimated to decrease state sales tax revenues by approximately \$162,923,000 ($\$8,146,126,000 \times 2.0\%$ reduction = \$162,922,520).
- The estimated \$162,923,000 in state sales tax revenue would have been apportioned as follows: \$47,287,000 to the General Fund, \$106,058,000 to the Education Fund, \$7,482,000 to local governments, \$600,000 to the Department of Revenue (DOR), and \$1,496,000 to the Sinking Fund.
- The increase to state expenditures for holding local governments harmless is estimated to be \$7,482,000.

Cigarette tax assumptions applied to amendment:

- Cigarette elasticity rate for proposed increase is estimated to be -.50.
- Incremental excise tax revenues are deposited to the General Fund.
- Incremental state sales tax revenues are apportioned according to current statute.
- Increasing the excise tax on cigarettes as proposed is estimated to increase excise tax collections by \$334,195,000.
- Incremental state sales tax collections are estimated to be \$10,739,000.
- The \$10,739,000 incremental state sales tax would be apportioned as follows: \$3,117,000 to the General Fund, \$6,991,000 to the Education Fund, \$493,000 to local governments, \$39,000 to DOR, and \$99,000 to the Sinking Fund.
- Net increase of state sales tax revenue is estimated to be \$10,246,000.
- Incremental revenue to local governments (state-shared tax revenue and local option sales tax revenue) is estimated to be \$3,945,000.

Other tobacco products assumptions applied to amendment:

- Tobacco tax collections for all non-cigarette tobacco products were approximately \$9,410,000 in FY05-06.
- Taxable wholesale sales for all non-cigarette tobacco products for FY05-06 are estimated to be \$142,575,000 ($\$9,410,000 \div 6.6\% = \$142,575,757$).
- 2.5% annual growth of taxable wholesale sales on all other tobacco products absent a change to current tax rate.
- Tobacco tax collections for all other tobacco products absent a tax increase are estimated to be \$9,886,000 for FY07-08 ($\$142,575,000 \times 102.5\% \times 102.5\% \times 6.6\%$ rate = \$9,886,328).

- 5.0% decline in consumption for all other tobacco products in FY07-08 due to the proposed tax increase.
- Adjusted taxable wholesale sales for FY07-08 with the proposed tax increase are estimated to be \$142.3 million ($\$142,575,000 \times 102.5\% \times 102.5\% \times (100\% - 5\%) = \$142,303,216$).
- Tobacco tax collections for all other tobacco products with the proposed tax increase are estimated to be \$28,175,000 for FY07-08 ($\$142.3 \text{ million} \times 19.8\% = \$28,175,400$).
- The net increase of tobacco tax collections from all other tobacco products is estimated to be \$18,765,000 for FY07-08 ($\$28,175,000 - \$9,410,000 = \$18,765,000$).
- 100% of the \$18,765,000 is deposited to the General Fund.
- Incremental state sales tax collections are estimated to be \$1,314,000.
- The \$1,314,000 would be apportioned as follows: \$382,000 to the General Fund, \$855,000 to the Education Fund, \$60,000 to local governments, \$5,000 to DOR, and \$12,000 to the Sinking Fund.
- Incremental local option sales tax collections are estimated to be \$422,000.

All other assumptions applied to amendment

- The legislative intent of this act is that the fiscal impact of this bill be at least revenue-neutral.
- Three additional Regulatory Officers in the DOR will be required to combat the illegal importation of cigarettes into Tennessee.
- Security upgrades will be required for cigarette tax stamps to combat illegal/counterfeit tax stamps.
- The recurring increase to state expenditures for the new positions and tax stamp enhancements is estimated to be \$220,000 per year.
- The one-time increase to state expenditures for computer and software enhancements and for costs associated with hiring the three Regulatory Officers is estimated to be \$200,000.
- The incremental excise tax revenue generated from subsequent one-cent increases on cigarettes is sufficient to offset the incremental decrease of state sales tax revenue that will occur from growth of taxable food sales.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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